

Audit Commission Audit Practice Annual Quality Report



Corporate report

December 2008

 **audit**
commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Preface

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- 1** The Audit Commission's in-house audit practice (the audit practice) is the fifth largest in the UK and the largest of the bodies we audit are inherently public interest entities. As a public audit agency we need to be able to provide assurance to our audit clients, government and other stakeholders, and the public that the audit work our audit practice delivers is of an appropriate quality.
- 2** We therefore believe it is right that we should publish an annual report giving information on the audit practice, including on its structure and governance and on its systems for ensuring audit quality.¹ This is our second annual report. It puts into the public domain information about the results of our internal quality monitoring programme and of quality reviews of our work by external inspectors. We believe that publishing this report:
- demonstrates our unequivocal commitment to delivering audit quality;
 - provides assurance to audited bodies and key external stakeholders about both the arrangements we have put in place to ensure audit quality and the underlying strength of the Commission's audit practice; and
 - enables them to compare our audit practice with the firms and other audit agencies.

1 Under Article 40 of the revised European Eighth Company Law Directive auditors of listed companies have a statutory obligation to produce an annual transparency report, giving equivalent information about the firm. All of the private sector audit firms in the Commission's audit regime are subject to the new statutory requirement from April 2008. These requirements were introduced by regulations issued by the Professional Oversight Board of the Financial Reporting Council in The Statutory Auditors (Transparency) Instrument 2008 (POB 01/2008) in April 2008. Although the Commission's audit practice is not covered by the new statutory requirement, we have decided to comply with it on a voluntary basis.

The Audit Commission's audit practice

Background

- 3 The Commission's audit practice is the successor to the District Audit Service which was first established in 1844 and was absorbed into the Audit Commission when it was set up in 1983. It retained its separate brand name until 2002.
- 4 Under the Audit Commission Act 1998 the Commission's core statutory responsibility is to appoint auditors to local government and NHS bodies in England and Wales.¹ It may appoint appropriately qualified officers of the Commission or firms of accountants. Currently, it appoints officers of the Commission, organised into the Commission's audit practice (see below), to some 70 per cent of the audits within its regime. Under the Charities Act 1993 (as amended) it may also appoint auditors to English NHS charities.
- 5 In addition officers of the Commission may with the approval of the Commission be appointed as the auditor of Foundation Trusts under the National Health Service Act 2006.
- 6 In 2007/08, the audit practice was the appointed auditor to some 600 principal bodies and some 2,500 small bodies (parish and town councils and internal drainage boards).

Type of body	Number
County councils	23
Unitary authorities	55
London boroughs	19
District councils	152
Police authorities	31
Fire and rescue authorities	26
Probation boards	28
Strategic health authorities	10
NHS trusts	110
Primary care trusts	103
Other	50

- 7 Details of these appointments are published in the Audit Commission's annual Directory of Audit Appointments, which can be found at www.audit-commission.gov.uk

¹ For further information about the Commission and its other functions please go to www.audit-commission.gov.uk

The Audit Commission's audit practice

8 The audit practice is also the appointed auditor to 37 NHS foundation trusts (as at 31 March 2008).

9 The audit practice's gross fee income from these audits in 2006/07 was £116 million. This makes it the fifth largest audit practice in the UK.

Sector	Gross fee income (£m)
Local government	73
NHS (SHAs, and PCTs)	24
NHS trusts	17
Foundation trusts	2

10 Some 1,300 staff work in the audit practice, made up as follows:

	No.	%	No. qualified	%
Senior management	34	3	20	59
District auditors/engagement leads	60	5	60*	100
Audit/engagement managers	290	22	254	88
Auditors	443	34	271	61
Trainees	136	10	N/A	–
VfM audit staff	289	22	33	11
Technical support	47	4	46	98

* By law individuals appointed as auditors must hold a professional accountancy qualification.

11 The audit practice has the characteristics of a major audit firm. As described in this report, it complies with the same professional standards and has a similar professional infrastructure.

12 However, it is distinctive in that it is exclusively a public sector audit practice. One of the defining characteristics of public audit (as defined by the Public Audit Forum¹) is its wider scope, which extends beyond giving a true and fair (or

presents fairly) opinion on the financial statements to include considerations of legality (regularity), probity (or propriety) and value for money. As such, public audit is an essential element in the process of accountability for public money, and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

¹ The Public Audit Forum is a consultative and advisory group, which comprises the five public audit agencies in the UK and provides a focus for developmental thinking in relation to public audit.

The Audit Commission's audit practice

13 The Commission's audit practice aims to deliver world-class public sector audits, consistently and efficiently, in compliance with professional and regulatory requirements, so as to secure impact and to serve the public interest.

Governance and structure

14 The Commission's audit practice is an integral part of the Audit Commission and is thus governed by the Commission Board which comprises independent, non-executive members (Commissioners), appointed by the Secretary of State.

15 The audit practice is led by the Audit Commission's Chief Executive, supported by a Management Team comprising the Commission's Managing Directors. The Managing Directors for Health and Local Government are responsible for all aspects of operational delivery. The Managing Director, Audit (MD, Audit) is responsible for all professional issues, including the audit approach, technical support, training

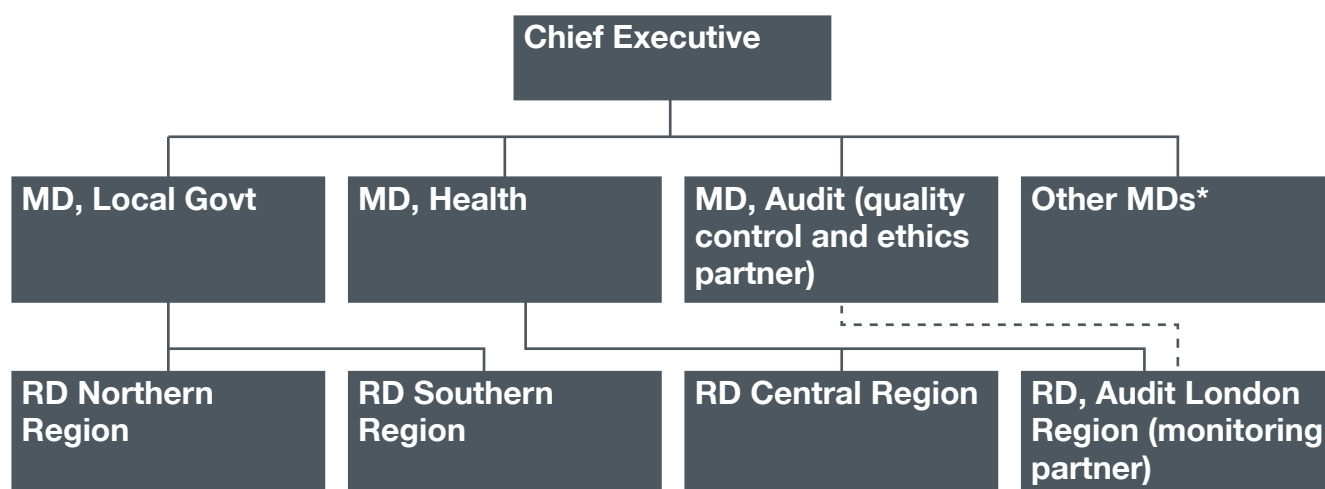
and the ethical framework. He is the audit practice's quality control partner in accordance with the Auditing Practices Board's (APB) International Standard on Quality Control (UK and Ireland) 1 (ISQC (UK&I)1) and its ethics partner in accordance with the APB's Ethical Standard (ES) 1: 'integrity, objectivity and independence'.

16 The audit practice is organised functionally into a general practice, which is responsible for the audits of all local government bodies and NHS PCTs and SHAs and the specialist Trust Practice, which is responsible for the audits of NHS trusts, foundation trusts and associated NHS charities.

17 It is also organised geographically into four regions (Central, London, Northern and Southern), which are led and managed by a Regional Director (RD), who report to the Managing Directors for Health and Local Government. One of the RDs acts as the audit practice's nominated quality monitoring partner (RD, Audit).

The Audit Commission's audit practice

18 The top management structure is summarised in the diagram below:



* HR
Finance and Corporate Services
Communications and Public Reporting
Policy, Research and Studies

19 The MD, Audit is supported by the Director of Professional Practice, who is responsible for leading and managing the development and implementation of the audit practice's systems and processes for promoting audit quality, comprising:

- the Commission's core audit approach, and related audit tools and documentation;
- the provision of technical information and support, and training for auditors;
- the provision of a range of technical services to auditors and audited bodies; and
- quality monitoring and compliance.

20 At the regional level, professional leadership of the audit practice is the responsibility of the Heads of Audit, who have specific responsibility for promoting audit quality and for ensuring compliance with our practice wide systems and processes. They also have a role in the appointment and performance monitoring of the audit practice's engagement leaders (district auditors, engagement leads and senior audit managers). The Heads of Audit are line managed by their RDs, but have a line of professional accountability to the MD, Audit. Heads of Audit are supported by sub-regional Heads of Audit.

The Audit Commission's audit practice

- 21** Together the MD, Audit, RD, Audit, Director of Professional Practice and the heads of audit comprise the Audit Practice Development Group (APDG), which is responsible for providing professional leadership to the audit practice.
- 22** The APDG is supported by four standing groups:
- the Audit Practices Committee, which oversees the development of our audit approach, and associated tools and documentation;
 - the Technical Committee, which is responsible for developing the audit practice's line on technical policy and emerging technical issues, and advising on the appropriate response on specific technical issues arising at particular audits;
 - the Audit Standards Committee, which oversees the development and monitors the effectiveness of the audit practice's systems and processes for promoting audit quality; and
 - the HR Committee, which leads the development of our approach on all HR issues relevant to promoting audit quality, including people development and training.

The Commission's approach to audit quality

Background

23 Audit quality has been defined by the Audit Inspection Unit (AIU)¹ as the combination of:

- an appropriate audit opinion which is independent and is supported by sufficient and appropriate evidence, and objective evidenced judgements; and
- audit reports to those charged with governance, which are complete and appropriate to the circumstances.

24 Taking this definition and building on it

to reflect the public sector context, the Commission's practice defines audit quality as the consistent and efficient delivery of audits that:

- comply with professional standards and other regulatory requirements; and
- have impact.

25 There are a number of features of a quality audit. The following table sets out the key attributes that contribute to the delivery of a quality audit.

Feature	Attributes
Evidence based	Sufficient appropriate audit evidence is obtained. Audit processes, findings and conclusions are documented fully and clearly.
Independence	The auditor is, and is seen to be, independent and objective by applying challenge and professional scepticism to the audit. Ethical Standards are complied with.
Legal and technical compliance	Professional auditing standards and other Commission requirements are applied and documented.
Risk based	Audit effort is properly targeted at the areas of greatest audit risk.
Timely	Audit work is undertaken at the appropriate time. Key reports and other audit outputs are finalised and delivered on a timely basis.
Impact	Appropriate impact is achieved through the auditor's engagement and relationship with the audited body, the key judgements reached and reported, and the outcomes delivered or supported by the audit process.
Efficient	Appropriate and efficient audit procedures are applied. Staff with appropriate experience and qualifications are used where required.

¹ The AIU was set up in 2003 to monitor the quality of audits of public interest entities in the private sector. It forms part of the independent framework for the regulation of the accountancy profession that was set up in the UK in response to the collapse of Enron and the demise of Andersen, which is overseen by the Financial Reporting Council.

The Commission's approach to audit quality

26 A quality audit will be the sum of these parts. Weaknesses in one or more of these features will present a threat to audit quality. For this reason, we apply a structured quality framework to ensure the necessary building blocks are in place to support quality audit work. We monitor the delivery of our work to assess compliance with these requirements.

27 The Commission's audit practice is committed to delivering quality audits and to that end has put in place systems and processes through which:

- the achievement of high quality is valued, invested in and rewarded;
- the underlying skills and personal qualities of staff are developed through the technical training and personal development provided, and the appraisal regime applied, to staff;
- we deploy an appropriate audit team, provide high quality technical support, utilise an established and documented audit methodology, and comply with the requirements of ethical standards and quality control standards; and
- our opinions and audit outputs are standardised where appropriate and are consistent with legal and auditing standards, so that our communication with those charged with governance and management throughout the audit contributes towards a high quality audit outcome.

Our quality framework

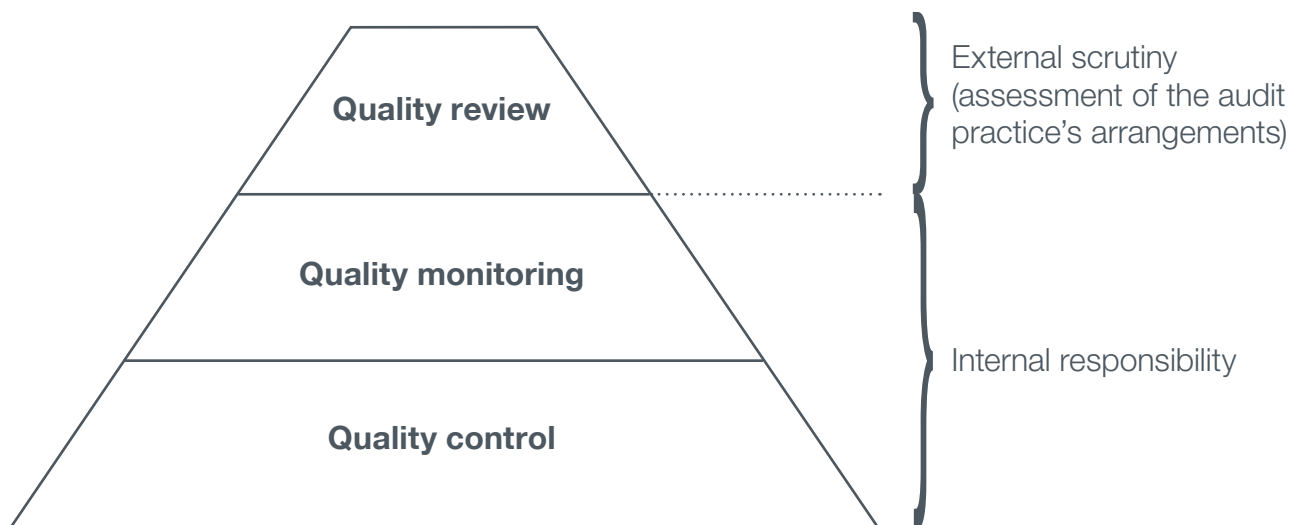
28 Our quality framework has been developed to meet the standards set out in ISQC (UK&I) 1, which sets out standards and provides guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

29 However, it goes beyond this standard in order to meet certain additional requirements of the Commission's audit regime. In addition, individual engagement partners are required to comply with the requirements of ISA (UK&I) 220: Quality control for audits of historical financial information.

30 The quality framework, together with supporting procedures and policies, is documented in the audit practice's *Audit Manual* in accordance with ISQC (UK&I) 1. It is subject to review on an annual basis by the Audit Standards Committee.

The Commission's approach to audit quality

31 The framework comprises three elements:



32 This three-level approach highlights that the foundation of our quality framework is built on quality control. This means embedding quality controls into our processes to ensure that we get things right first time.

33 As the audit practice's quality control partner, the MD, Audit is responsible for ensuring that our embedded quality control processes are fit for purpose.

34 Our quality control processes have been developed to meet the requirements of ISQC (UK&I)¹ and are designed to ensure:

- appropriate professional leadership throughout the practice, which promotes a quality audit culture;

- compliance with ethical standards, regarding
 - the integrity, objectivity and independence of our staff;
 - professional competence (qualifications and training);
 - confidentiality;
 - rules regarding professional behaviour;
- the availability of sufficient staff with the capabilities and competence to perform our audits;
- consistency in the quality of audit work and all associated outputs, by
 - applying an agreed audit approach and reporting framework;
 - specifying requirements for supervision and review;
 - determining the circumstances under which consultation and independent review are required;and

The Commission's approach to audit quality

- the provision of appropriate technical support and advice to auditors on difficult or contentious audit matters.
- 35** The next tier in our quality framework is our monitoring arrangements, which are designed to provide assurance that our systems of quality control are relevant, adequate, operating effectively and delivering the intended outcomes. The quality monitoring function is overseen by the audit practice's Audit Standards Committee.
- 36** In accordance with ISQC (UK&I)¹ it develops and monitors the implementation of an annual quality monitoring programme designed to evaluate the quality control processes, and to obtain reasonable assurance that our systems of quality control are operating effectively.
- 37** The programme comprises seven main elements:
- quality monitoring reviews (QMRs) which are designed to:
 - monitor compliance with the audit approach, including compliance with professional standards and other requirements;
 - review key judgements and ensure that they are supported by sufficient, appropriate and evidenced work; and
 - assess whether quality control systems and other systems and processes put in place to promote audit quality are designed appropriately and are being applied effectively;
 - client satisfaction surveys – which are used to obtain the views of audited bodies on the quality of the service provided by auditors, their relationship with the audit team and the impact of auditors' work;
 - a product reading exercise – to assess the quality and impact of a range of audit reports;
 - quality monitoring of performance audit work – to ensure compliance with quality control procedures;
 - review of regional office processes – to ensure our various compliance processes are properly designed and operating effectively;
 - reviews of compliance with regime wide regulatory requirements imposed by the Audit Commission, as regulator, on all its audit suppliers; and
 - review of audits undertaken under the Audit Commission's limited assurance regime – to ensure that there is compliance with the procedures specified by the Audit Commission.

The Commission's approach to audit quality

38 The findings of our quality monitoring programme are logged and reported to the Audit Standards Committee, which identifies the key learning points and implements the corrective actions that are needed to address any weaknesses identified. The overall messages and our response to them are reported to, and considered by, top management and the Commission Board and then disseminated within the practice.

39 The results of our 2006/07 quality monitoring programme are summarised in the next section.

40 The final tier in the framework is quality review. This is provided predominantly by independent review of practice-wide systems and individual engagements by the AIU. The Audit Commission has invited the AIU, the independent body which is responsible for providing assurance about the quality of the audits of public interest entities, to inspect its audit practice, to provide independent assurance about the quality of its audits. In addition the Quality Assurance Directorate (QAD) of the ICAEW reviews our foundation trust audits on behalf of Monitor (Independent Regulator of Foundation Trusts). The results of quality reviews of our 2006/07 audits are summarised in the next section.

Results of our 2006/07 quality monitoring programme

Summary

- 41** The key messages from the programme carried out in 2007/08 are:
- The quality of the audit practice's work meets professional standards. However the monitoring process has identified a continuing need for improvement in a number of areas.
 - Audited body satisfaction is generally high and audited bodies continue to report a perception of improved audit quality.
 - The quality of our reports has continued to improve, but there remains scope for further improvement.
 - While the overall standard is improving, there remains scope for continued improvement in the quality of local performance audit work.
 - Levels of compliance with local quality systems and processes were high and there were no issues of significant concern.
 - Our reviews of audits undertaken under the limited assurance regime found that the processes in place are well established and operating effectively.
 - Compliance with regime-wide regulatory requirements is generally high.
- 42** We are taking action in response to each of these key messages, which are being fed back to staff through regional heads of audit and their local quality leads. They are being reinforced through events for the professional leadership of the audit practice and through our national technical training programme. At local level, improvement opportunities are being reflected in local quality plans.

Quality monitoring reviews

- 43** The 2007/08 quality monitoring review programme (which reviewed completed audits for 2006/07) comprised reviews of 23 audits, most of which were carried out between January and March 2008. Of these, 18 were reviewed by teams of the audit practice's own staff. The remaining five were outsourced to the Association of Chartered Certified Accountants, an independent audit regulatory body.
- 44** We identified two significant instances of non-compliance with specific auditing standards or the requirements of our Audit Manual. We also identified scope for improvement in a number of other audits.

Results of our 2006/07 quality monitoring programme

45 Action has already been taken in response to these findings, including revision of the quality control checks, which auditors carry out prior to issuing their opinions and VFM conclusions. These are an integral part of our quality control framework, and the checks have been updated to take account of specific risk areas highlighted by the quality monitoring visits.

46 Where weaknesses were identified at individual audits, the district auditors or engagement leads have prepared a formal response and action plan for the regional Head of Audit, setting out how they propose to respond.

Client satisfaction survey

47 The views of our clients are an important element in assessing the quality of the work delivered. This year the survey was undertaken as part of a wider stakeholder survey undertaken on behalf of the Audit Commission by Ipsos Mori.

48 It took the form of a telephone questionnaire with chief executives or other senior staff within audited bodies, who were asked to rate their satisfaction with their auditor's work on a one to ten scale (with ten being completely satisfied). We also asked for an assessment of how auditors' performance compared to the previous year.

49 The response rate was 33 per cent. This represents a reasonable response rate for this type of survey. The average overall score for the audit practice was 6.9 (out of 10). For surveys of professional services a score between seven and eight out of ten is a good assessment and a score below four is poor, so this overall score is encouraging. Moreover, 29 per cent of respondents believed that audit quality had improved over the previous year compared with only 5 per cent who believed that it had declined.

50 Where respondents have agreed, the detailed results of the survey have been shared with engagement leaders and local audit teams. Regional Directors and Heads of Audit investigate the reasons for any low scores and draw up action plans to address these. Where low scores were awarded we follow up with audit clients to ensure that any underlying issues are being addressed to their satisfaction.

Product reading exercise

51 Good reporting is a key element of audit quality and is essential if our audit work is to have impact and secure beneficial change. Our annual quality monitoring programme includes a product reading programme, which involves a pool of readers, comprising Commission Board members and Senior Managers, assessing a range of audit reports from the perspective of a senior manager or non-executive.

Results of our 2006/07 quality monitoring programme

52 This year's review covered a selection of audit plans, annual governance reports and public interest reports.

53 In the majority of cases reviewers considered the reports to be good. This represents an improvement on the previous year, although there still remains further scope for improvement, with the main focus being on the need to improve our standard report templates and to strengthen current processes for review and approval of all reports by the District Auditor/Engagement Lead before they are issued.

Quality monitoring of performance audit work

54 The quality of our performance audit work and of the reports we produce has a major influence on the impact that we have, in driving up performance in the public sector. They provide an opportunity for auditors to contribute to improvements in local services, in value for money and ultimately in outcomes for local people. This year's quality monitoring of our performance audit work comprised a review of 55 files from across the audit practice during the year.

55 The review was undertaken by senior performance staff from across the audit practice.

56 Overall we found that report quality is improving. However there remains scope to improve compliance with our quality control processes, in particular in relation to standards of evidencing and documentation.

Reviews of quality procedures operated at regional level

57 A number of the audit practice's procedures for compliance with ethical standards and the Audit Commission's Code of Audit Practice and Standing Guidance for Auditors are operated at regional level. We therefore review procedures at regional level to provide assurance that appropriate procedures are in place and operating.

58 Levels of compliance with local procedures were high throughout each of the regions and there were no issues of significant concern.

Review of audits undertaken under the limited assurance regime

59 The audit practice is responsible for the audit of 2,500 bodies under the limited assurance regime. As part of this year's quality monitoring we reviewed the overall processes in place and a sample of 44 engagements.

Results of our 2006/07 quality monitoring programme

60 The review found that the processes we have put in place are well established and operating effectively. Only minor improvement opportunities were identified.

Compliance with the Audit Commission's regulatory requirements

61 The Audit Commission specifies the terms and conditions of appointment of all of its appointed auditors in its Standing Guidance. The Standing Guidance sets out additional requirements that auditors appointed by the Commission must comply with, over and above those set out in the Code of Audit Practice and Statute. As part of our quality monitoring we reviewed compliance with the Audit Commission's regulatory requirements.

62 We found that:

- there were no instances of late opinions or conclusions, other than for legitimate reasons, for example as a result of failure by the audited body to provide accounts and working papers of an appropriate quality or because complex technical or legal issues remained unresolved;
- progress had been made on compliance with the requirements of the Healthcare Inspection Concordat, regarding the reporting of recommendations arising from auditors' value for money work at NHS bodies; and
- deadlines for the return of the range of regulatory information that the Audit Commission collects annually from its appointed auditors had generally been met.

Results of external quality reviews

The AIU's inspection of the audit practice

- 63** We indicated in our 2007 annual quality report that we had invited the independent Audit Inspection Unit (AIU) to inspect our audit practice. The AIU completed its inspection in May and presented its report to the Commission Board in July.
- 64** The AIU was set up in 2003 to monitor the quality of audits of public interest entities in the private sector. It forms part of the independent framework for the regulation of the accountancy profession that was set up in the UK in response to the collapse of Enron and the demise of Andersen, which is overseen by the Financial Reporting Council.
- 65** The AIU's inspection of the Commission's audit practice was the first it has carried out on a non-statutory basis and its first involvement in public sector audit.
- 66** Our decision to invite the AIU to inspect our audit practice was a key part of our drive to improve the quality of our audit work. Over the past two years we have made major changes within the audit practice, as part of our promoting audit quality change programme, to embed professional leadership within the practice, to rebuild its core professional infrastructure to a level commensurate with its size and to strengthen its firm wide systems and processes for ensuring audit quality.

- 67** We saw inspection by the AIU as a key element in that process, enabling us to measure our progress towards achieving the aims of that change programme. We believed that the process of rigorous external scrutiny and challenge would be extremely positive and helpful to us in benchmarking where we are now as an audit practice and identifying what we need to do to improve, and how. In that respect, while it was as challenging as we anticipated, it has certainly met our expectations and, we believe, has added real value.

The AIU's approach

- 68** The AIU's inspection comprised two separate streams of work:
- a review of the audit practice's overall procedures (firm wide); and
 - a detailed review of five audit files (file reviews).
- 69** The firm wide element assessed the quality systems operating within the audit practice, and covered the following main areas:
- leadership, strategy and communications;
 - performance evaluation, promotions and remuneration;
 - other human resource matters;
 - consultation and review;
 - audit quality monitoring;
 - audit methodology; and
 - independence and ethics.

Results of external quality reviews

70 The AIU selected five audit files for review, from a list of the audit practice's larger clients, spread across the regions. The reviews assessed compliance with the specific requirements of each applicable auditing standard, and considered the appropriateness of the judgements made by the auditor.

71 Members of the AIU's inspection team were on site from mid February to early May 2008.

Overall messages

72 The AIU report is comprehensive and identifies areas where improvements are, in its view, needed in order to enhance audit quality and/or comply with professional and regulatory requirements.

73 The majority of its findings relate to firm wide procedures, which is consistent with the AIU's experience when it first visited other firms.

74 The report contains some strong positive messages for the Commission. It acknowledges the Commission's commitment to improving audit quality – 'The Commission's commitment to improving audit quality is clearly evident to us from this review.' It also recognises the changes we have made in the past couple of years – 'These changes together with the attitude and commitment of the Commission and its staff, indicate that the Commission is well placed to move forward and address the issues we set out in this Report.'

75 Clearly, however, there remains much to do if we are to achieve our stated aim of being a world class audit provider.

76 Generally, it is pleasing that none of the findings come as a surprise and they are all fixable. In some cases our response to them is either already in hand or will be relatively easy to implement. But other, general management issues have potentially significant HR and/or financial implications and, therefore, will take longer to consider and respond to. The AIU's report therefore recognises that we will need to prioritise our response and that we will need to address some findings over an extended period.

Results of external quality reviews

The AIU's findings

77 The findings, which in effect constitute recommendations for improvement, can be categorised into two broad groups. The first comprises a series of general management findings relating to:

- performance evaluation, promotions and remuneration;
- workforce planning; and
- use of contractors.

78 The second comprises the more technical and professional findings, covering:

- training;
- consultation and review;
- quality monitoring reviews;
- audit methodology; and
- the findings from the audit file reviews.

79 The key findings to which the AIU attaches particular importance and which it suggests should therefore be given high priority are those relating to:

- HR systems and processes, in particular those relating to
 - staff planning and resourcing; and
 - performance management and promotion, to better differentiate performance, provide appropriate incentives, and reward high quality work;
- the need to reduce our relatively high usage of temporary contract staff, and to improve our processes for hiring and managing these staff;

- the appointment of Engagement Quality Control Reviewers to a specific segment of our client base (for example, larger bodies) on an ongoing (as opposed to risk) basis;
- expanding the coverage of internal quality monitoring reviews and ensuring the comparability of results;
- the consolidation and updating of our existing ethical policies;
- monitoring how ethical issues are dealt with and the content of the annual independence declaration exercise;
- providing auditors with access to expert actuarial and valuation advice; and
- issuing guidance on the use of the IT assurance function.

How have we responded?

80 We have accepted all of the AIU's findings. Some of them can be implemented relatively easily and quickly, and in a number of cases we have already done so. However, in other cases our response is necessarily of a holding nature only.

81 The AIU acknowledges that in a number of areas changes will be difficult to make. It therefore accepts that there will need to be some prioritisation and that in some areas the action plan may be required to be implemented over an extended period.

Results of external quality reviews

82 However, the AIU has indicated that it considers that our responses to each of its findings are well considered and positive and reflect the Commission's commitment to improving audit quality.

83 We are now developing a more detailed action plan and a timetable for implementation of the recommended changes. Work on the action plan is being led by our Audit Practice Development Group, working closely with the Managing Director, HR and the regional directors.

84 Nevertheless, it will take time for some of the changes to flow through to individual audits, reflecting the inherent time lags in the audit cycle of planning; audit; review. This time lag is exacerbated by the fact that all of our clients have the same financial year-end date. The AIU's file reviews were of completed audits for 2006/07. Audits for 2007/08 have already been completed, so the next cycle of audits we can influence is 2008/09 interims and final accounts (which will be reviewed in winter/spring 2010 and reported on in summer 2010) and 2009/10 planning.

85 We are discussing with the AIU the scope and coverage of its 2009 inspection.

QAD's reviews of the quality of the audit practice's foundation trust audits

86 The Audit Code for NHS foundation trusts makes provision for the review of the work of auditors of NHS foundation trusts. Monitor commissioned the QAD of the ICAEW to undertake reviews of audits of NHS foundation trusts for 2006/07. As part of this programme, QAD reviewed three audits carried out by the audit practice's Trust Practice.

87 The aim of the review is to provide assurance to Monitor that the auditors reviewed complied with the Audit Code and that audits were of a high standard and suitable quality.

88 Monitor has summarised the key findings of QAD's reviews as follows:

- the number and significance of the matters raised has continued to diminish, as in previous years;
- audits were of a sufficiently high standard and suitable quality; and
- QAD found no indication that an incorrect audit opinion has been given.

Our commitment to audit quality

Our commitment to audit quality

89 The Commission's audit practice has set itself the aim of being a world leader in public sector audit and delivering world class audits consistently and efficiently.

90 To deliver this aim, we are continuing to roll out a major change programme, promoting audit quality, to:

- enhance professional leadership at all levels within our audit practice;
- strengthen our core professional infrastructure, so that it is commensurate with the size and status of our audit practice; and
- respond to the findings of the AIU's inspection of our practice.

91 In the last twelve months we have built upon progress to date, building our professional capacity and engaging the whole of the professional leadership of the audit practice in the change programme.

92 More specifically we have seen:

- the appointment of dedicated professional support for each of the regional Heads of Audit to assist them in the promotion of audit quality within their regions;
- the appointment of sub-regional Heads of Audit to serve as a link between heads of audit and sub-Regional Management Teams;
- the rolling out of practice-wide arrangements for Engagement Quality Control Reviews;
- the appointment of a new cohort of Senior Audit Managers, eligible to serve as appointed auditors for a limited number of lower risk engagements, as a developmental grade to build the audit practice's professional leadership capacity;
- the preparation of local quality plans by all of our local audit teams. These are designed to enable an audit team to assess its own relative strengths and weaknesses, and any threats to audit quality, and thereby to focus resources and prioritise team development in areas of greatest need; and
- the development of a detailed action plan to respond to the findings of the AIU's inspection.

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